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SUBJECT: CYPRUS STOCK EXCHANGE ENTERS NEW ERA WITH LAUNCH OF JOINT
PLATFORM WITH GREEK STOCK EXCHANGE

Refs: A) Nicosia 1600 B) Nicosia 1092

¶1. Summary. The Cyprus Stock Exchange (CSE) and the Athens Stock Exchange (ASE) launched a joint trading platform on October 30, 2006. The launch signifies a new era in the turbulent 10-year history of the CSE, the EU's third smallest stock market, which included a major boom and bust cycle in 1999-2001. Since late 2004, the exchange has experienced a strong recovery, making the CSE the EU's fastest growing stock market so far in 2006. The joint platform promises to increase the capital available to Cypriot firms and improve the CSE's liquidity. It also should improve the CSE's regulatory environment leading to increased transparency and better corporate governance. The CSE and ASE are already exploring expanding the platform to other regional exchanges. End Summary.

New Joint Platform Launched Successfully

¶2. The Cyprus and Athens Stock Exchanges launched a joint trading platform on October 30. This development is an important turning point for the ten-year old CSE, marking the culmination of intense efforts spanning more than a year. The joint platform now allows capital to move freely from one exchange to the other, even though both exchanges will retain their autonomy and independence. The main advantage for Cyprus from this development is that it puts Cypriot-listed companies on the radar screen of large institutional investors abroad. The platform also marks the coming into force of structural changes in the regulatory and administrative framework for the CSE, ensuring increased transparency and better corporate governance.

¶3. The much-delayed launch went off without any major problems and was widely welcomed in Cyprus. The transition to using new share codes proved easier than anticipated, and over USD 22 million was traded on the first day - an increase over the CSE's average daily volume. CSE President Akis Kleantous was positively glowing, noting that the platform aims to exploit economies of scale and synergies between the two exchanges and to capitalize on opportunities arising from Cyprus's EU accession. The only quibble heard from several local investors concerned distortions in the prices of several "penny stocks" (i.e. stocks with a very small unit value), resulting from the conversion of prices from Cyprus Pounds to Euros and the rounding of prices to only two decimal points, as opposed to three under the earlier system. This, however, was not considered a serious problem as it is expected that the market will make the necessary adjustments.

¶4. The joint platform has given Cypriot investors their first taste of trading in Euros. The EU will decide in May 2007 whether Cyprus has met all the criteria necessary to meet the GoC's goal of adopting the Euro on January 1, 2008. If the decision were made today, Cyprus would qualify. The GoC, however, is concerned that it

may not be able to continue to meet its inflationary target, especially should another significant increase in world energy prices occur before the EU takes its decision.

¶15. The joint platform now enables Cypriot investors to buy shares in Greece just as easily as in Cyprus. Greek investors were also quick to snap up Cypriot stocks on the first day of trading, led by shares in Laiki bank. (Note: As ref b reported Laiki has plans to merge with the Greek Marfin Financial Services and Egnatias Bank, to form a new entity called Marfin Popular Bank based in Nicosia with over USD 4 billion in assets. Septel will report on Laiki Bank's October 31 extraordinary General Meeting which approved the merger. End note.) Other favorites among Greek investors include blue-chip Cypriot stocks in banking and tourism.

Future Plans: Open to Expansion

¶16. CSE President Akis Kleanthous and ASE President Spyros Kapralos plan to travel throughout Europe to promote the new platform. Their first scheduled stop will be November 2 in London. CSE insiders tell us that plans to potentially extend the platform to other exchanges such as Israel or Dubai are still in the works. The CSE's immediate priority, however, is to ensure the complete success of the new CSE-ASE platform. It will not pursue new partners until all the wrinkles from the current exchange are ironed out.

CSE: Best-Performing EU Market in 2006

¶17. The platform is the latest chapter in the CSE's turbulent 10-year history. The CSE has enjoyed a bull run over the past two years, finally recovering from the 1999-2001 boom and bust cycle that saw its value increase by eightfold only to subsequently drop 90 percent. After recording impressive gains of 52 percent during 2005, the CSE index grew 98 percent during the first ten

months of 2006, making it the EU's top-performing stock exchange so far this year. The CSE is currently the EU's third-smallest stock exchange, ahead of Malta and Slovakia, with a capitalization of around USD 14.0 billion as of October 2006.

¶18. The main drivers of this rally have been the shares of the two largest banks -- Bank of Cyprus and Laiki (Popular) Bank - which make up almost two-thirds of the CSE's total capitalization. Concomitant with the index increase, daily transaction volumes have also increased by more than tenfold over the past year-and-a-half -- from a paltry several thousand dollars to the current levels approaching USD 20 million.

¶19. Comment: The launch of the joint platform was a historic landmark for the CSE, promising to give it increased exposure to foreign investors and provide additional capital to Cypriot firms. Furthermore, the platform has helped strengthen the regulatory and legal environment surrounding the CSE, which should help improve corporate governance and eliminate some of the abuses that characterized the 1991-2001 era.

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